DEPARTMENT OF REVENUE

NAICS PROCEDURES

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Chapter One – NAICS Overview

1.1 - What is NAICS?

NAICS stands for North American Industry Classification System. Due to rapid changes in the U.S. and world economies, the U.S. Standard Industrial Classification system (SIC) was found obsolete and replaced by NAICS in 1997 and is what is used today. It is a numerical code that classifies all types of business industries and activities. It is used for the collection and analysis of economic statistics of the U.S. NAICS is evaluated every five years for possible modifications so that the classification system can keep pace with the rapid changing economy. It is updated in the years ending in '2' and '7', so the next update will occur next year in 2007. You will be using both coding systems and it is important to label each kind of business activity efficiently.

Each industry or business is identified by a 6-digit numerical NAICS code and a corresponding 4-digit SIC code. The longer code accounts for the growing number of new industries emerging in today's business economy.

1.2 - Why is the Correct NAICS Code So Important?

It is very crucial that the correct NAICS code is chosen. The Department of Revenue uses the NAICS code for several legislative issues. For example, the code can be used to determine the fiscal impact a certain tax change may have on an industry. Additionally, the Department of Revenue uses the code to inform taxpayers within a certain industry of law changes that may affect them. The NAICS code is also used to help the Department of Revenue in auditing purposes by comparing ratios of companies in a similar industry. If a company is significantly different then it can be singled out for further inspection.

1.3 - NAICS Coding Structure

1.3.1 - Industry Hierarchy

The NAICS code is divided into 5 subsections or levels, each more detailed than the last.

XX	Industry Section or Level
XXX	Industry Subsection or Sublevel
XXXX	Industry Group
XXXXX	Industry
XXXXXX	Nation Specific

Figure 1.1 - The Industry Hierarchy

Index entry	NAICS Code		2002 U.S. NAICS Title
	2002	1997	
445	445		Food and Beverage Stores
4451	4451		Grocery Stores
44511	44511		Supermarkets and Other Grocery (except Convenience) Stores
445110	445110		Supermarkets and Other Grocery (except Convenience) Stores

Figure 1.2 - Example of Industry Hierarchy

1.3.2 - NAICS Correspondence Table

The NAICS Correspondence Table is comprised of the 20 basic industry sections in the U.S. economy:

Industry Code	NAICS Sectors
11	Agriculture, Forestry, Fishing and Hunting
21	Mining
22	Utilities
23	Construction
31-33	Manufacturing
42	Wholesale Trade
44-45	Retail Trade
48-49	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	Administrative and Support and Waste Management and Remediation Services
61	Education Services
62	Health Care and Social Assistance
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Services (except Public Administration)
92	Public Administration

Figure 1.3 – The NAICS Correspondence Table

Chapter Two - Tools Used to Identify the Correct NAICS Code

There are several tools which can be used to determine the correct NAICS code. These range from a variety of items including manuals, printouts, websites, search engines, correspondence tables, a thesaurus and a dictionary.

The NAICS website contains an in-depth description of NAICS codes, along with links to all of their resources. This website can be found at the following link:

> http://www.census.gov/epcd/www/naics.html

The NAICS search engine is used to query for certain codes and contains a detailed chart of all NAICS codes broken down into subsections. The detailed chard can be used to search for NAICS codes, by filtering through each level. The NAICS search engine can be found at the following link:

> http://www.census.gov/epcd/naics02/naicod02.htm

A correspondence table like the one found on page 4 of this manual can be found at the follow link:

> http://www.census.gov/epcd/naics02/N02TOS87.HTM

A thesaurus and dictionary can be very useful when searching for codes. These come into play when the business description that is provided is less than explanatory. On-line versions can be found at the following links.

> http://www.dictionary.com
> http://www.thesaurus.com

2.1 - NAICS Search Engine

The NAICS search engine of the U.S. Census Bureau contains much valuable information. After a query is made the results displayed include both the 2002 and 1997 NAICS codes, SIC codes, NAICS definitions and cross references.
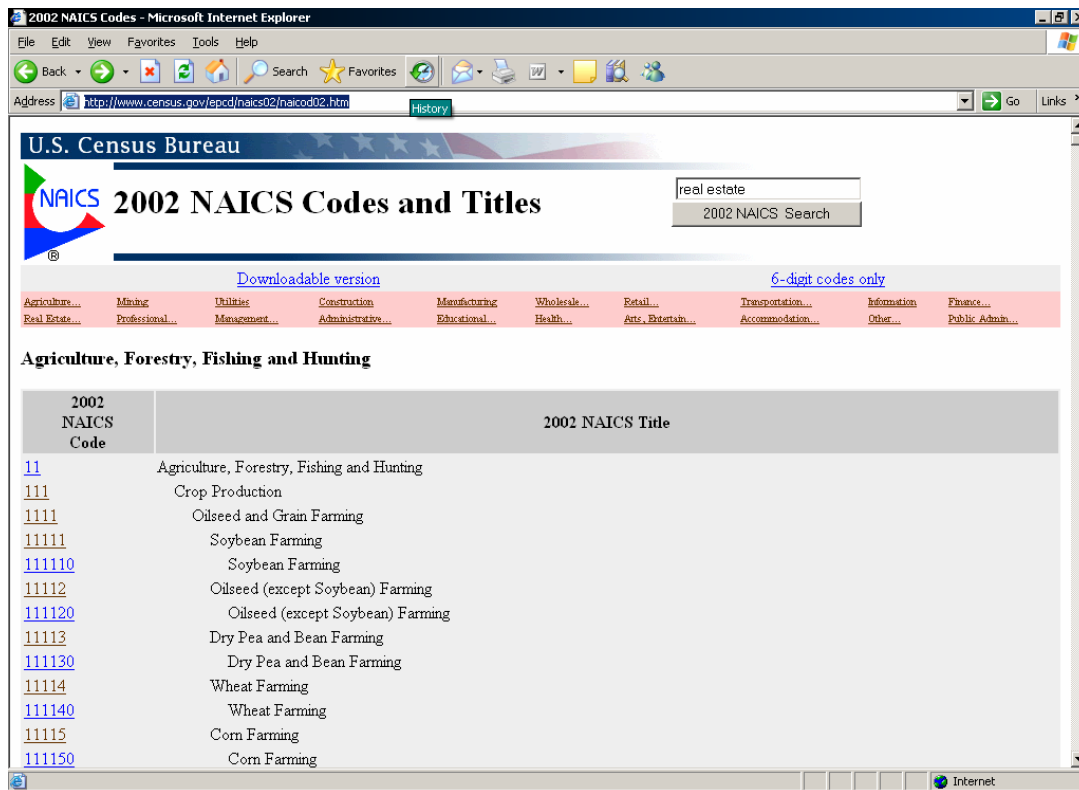
Figure 2.1 – Sample NAICS Website Page

When formulating a query, what is entered as search criteria is very important. Be as specific as you can. In the event that no results are found, use a broad or general term for the business description to yield some results. This is where a thesaurus or dictionary comes in handy. Sometimes it is a good idea to try different queries to find a certain code. In the following example we are searching the website for the NAICS code of someone who rents or leases an apartment. Run the search on "real estate", then on "apartment" and see the results.

Figure 2.2 – Search Results Using "Real Estate"

Figure 2.3 - Search Results Using "Apartment"

Figure 2.2 and 2.3 show how different search criteria can yield the same NAICS code. In Figure 2.2 a search was done on "**real estate**" and in Figure 2.3 a search was done on "**apartment**". Both display the correct code 531110 - Lessors of Residential Buildings and Dwellings.

To make sure you have the proper code, click on the code link and read the NAICS definition, read the cross references and if necessary look up the codes of the cross references.

Figure 2.4 – Verification using the NAICS Code Definitions

2.2 - Searching With the Correspondence Table

Below is a sample page from the NAICS correspondence table. It can also be used to search for NAICS codes. The table begins at the industry level and you can requested more detailed information until the desired code for a business activity is found.

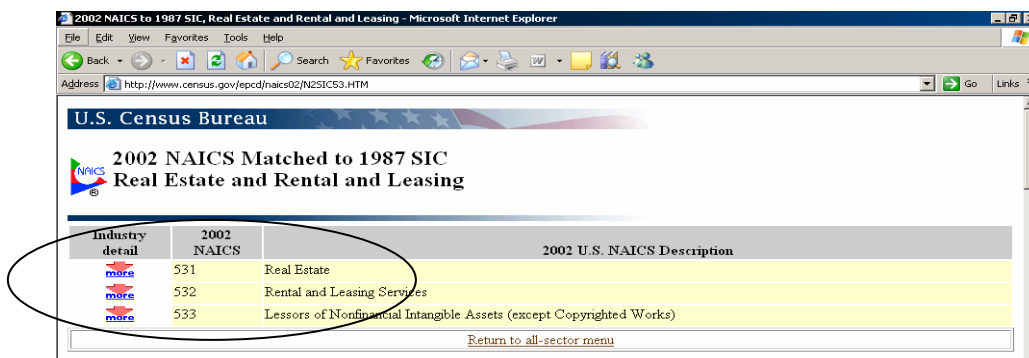**Figure 2.5 - NAICS Correspondence Table**

Using the previous search example, find the code for a business that rents or leases an apartment using the NAICS Correspondence Table. Read through the 20 industry sections and select the proper category. In this case it is "Real Estate" and "Rental and Leasing". Click on the "more" button to the left of the description. Now the table has moved down to the industry subsection level. In this example there are three different subsections. Click the "more" button again to continue traversing through the table.

Figure 2.6 - The next step through the table.

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After searching through three steps, the appropriate NAICS code has been found. Using either the search engine or correspondence table method for searching NAICS codes is fine. However, it is recommended that both of methods be used to increase your accuracy of finding the correct code.

Figure 2.7 - Displays the result of the search.

2.3 - Searching by NAICS/SIC Code

If the taxpayer has provided a NAICS or SIC code, a description of each code can be looked up by typing the appropriate NAICS or SIC code in the search engine text box (see Figure 4.1 below). For NAICS codes simply type the 6-digit numerical code and click the "NAICS Search" button. Searching by NAICS code can be useful when the complete code is not known. For example, if it is known that a business has real estate activity and you have the prefix of the code from another source or program then it can be searched for. If given 531 or 531000, enter 531 in the text box and click the search button. To search by SIC code, type "SIC" followed by a space and the 4-digit code. For example, type in SIC #### replacing #### with the given code.

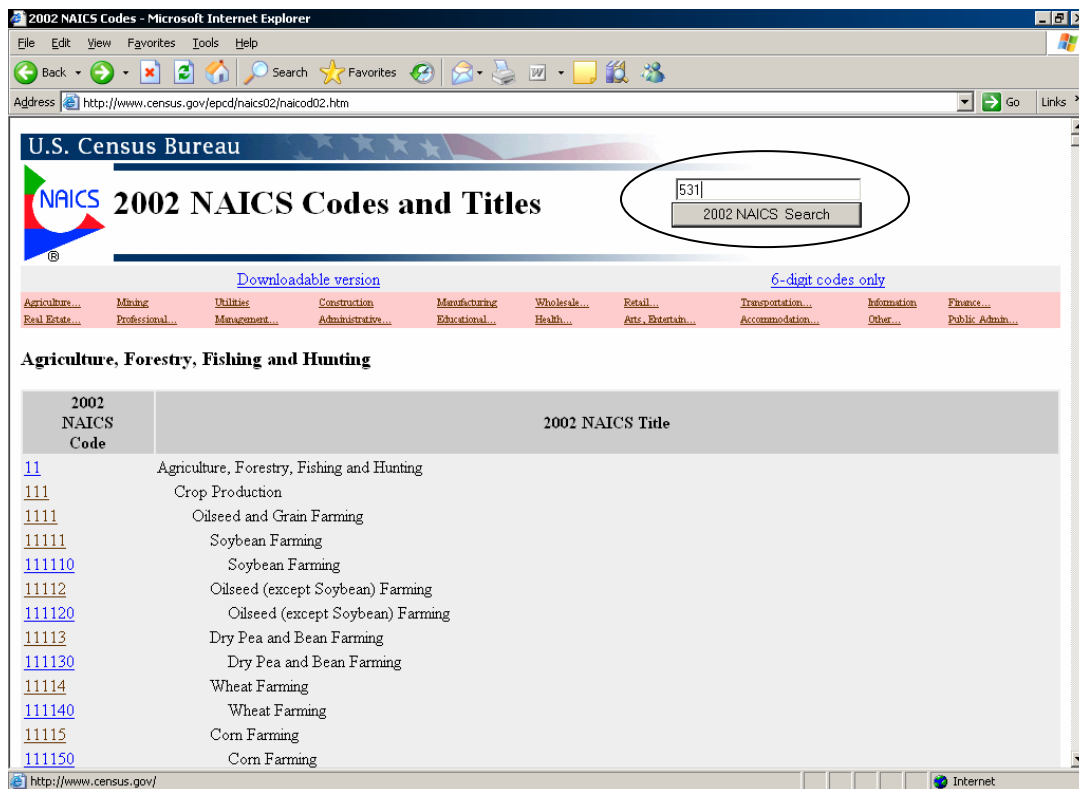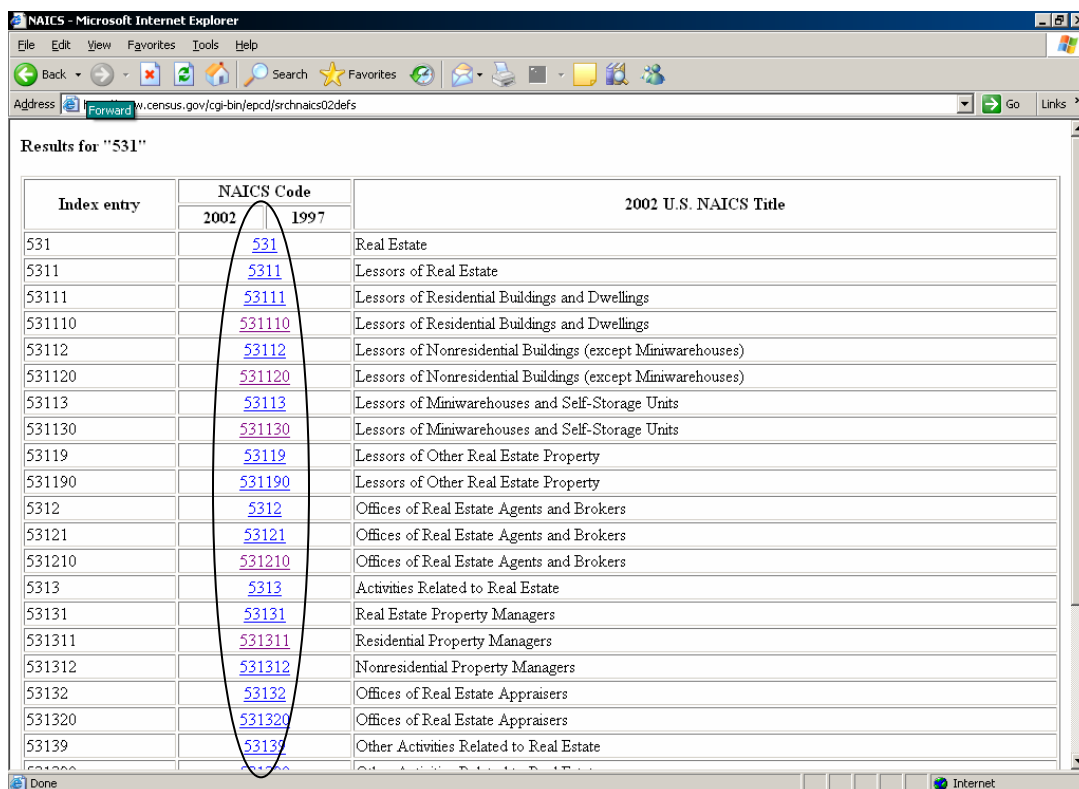**Figure 2.8 - Searching by incomplete NAICS code.**

Figure 2.9–Results for an incomplete NAICS code search

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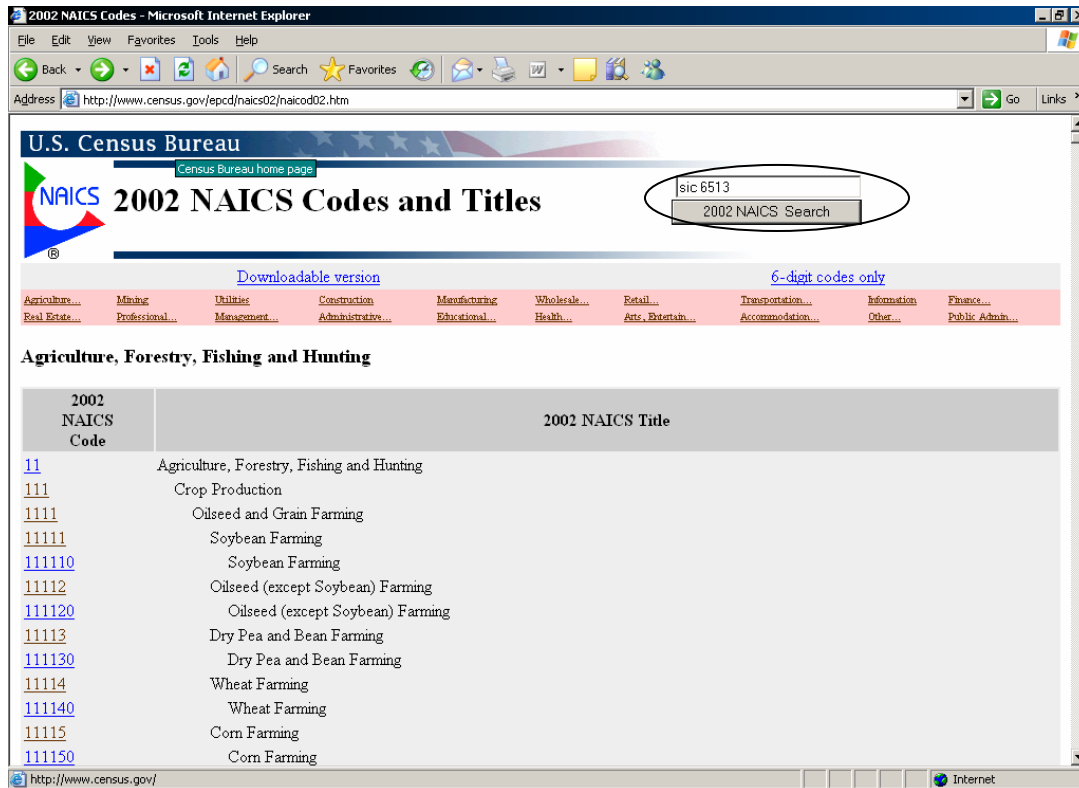
Figure 2.10 - Search using a given SIC code.
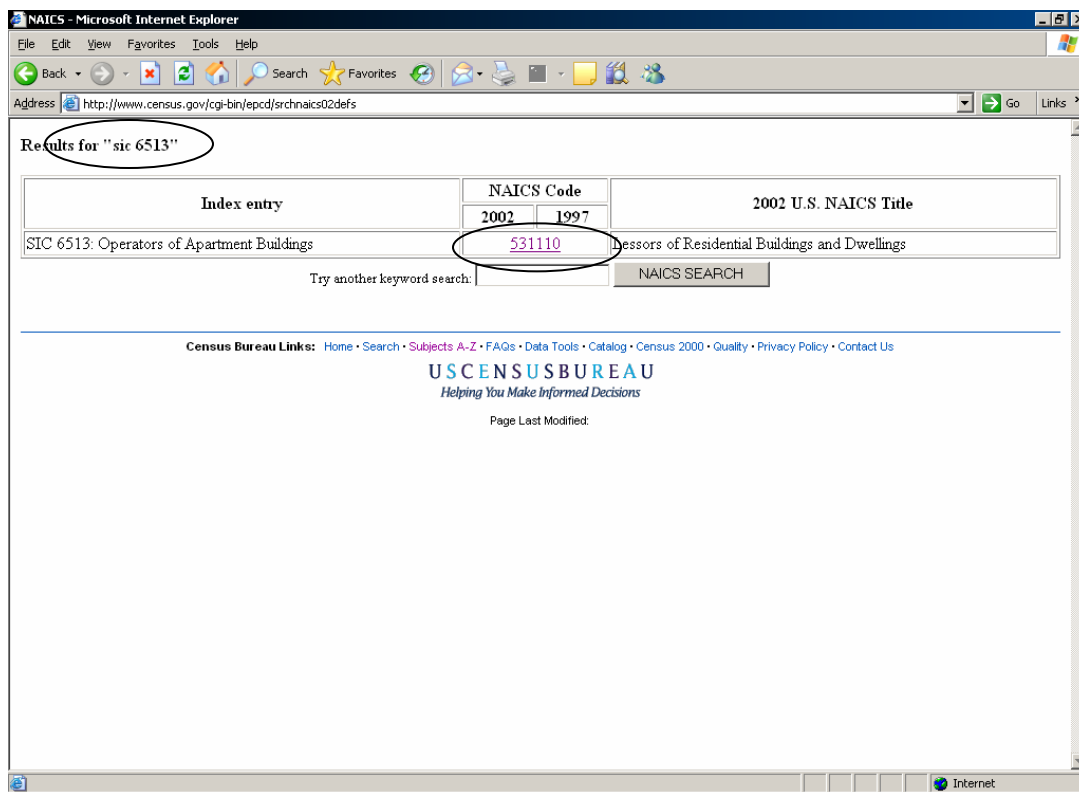
Figure 2.11 - Results for the SIC code display the equivalent NAICS code.

Chapter Three - Using a Dictionary and Thesaurus

On occasion, when using the NAICS search engine, no results are found. When this happens searching for business descriptions with a similar meaning may yield the appropriate results. This is where having a dictionary and thesaurus becomes essential. For instance, if searching for the code of a used clothing store and "used clothing" was the term used in the search, no results are returned.

Figure 3.1 - Search results for "used clothing".
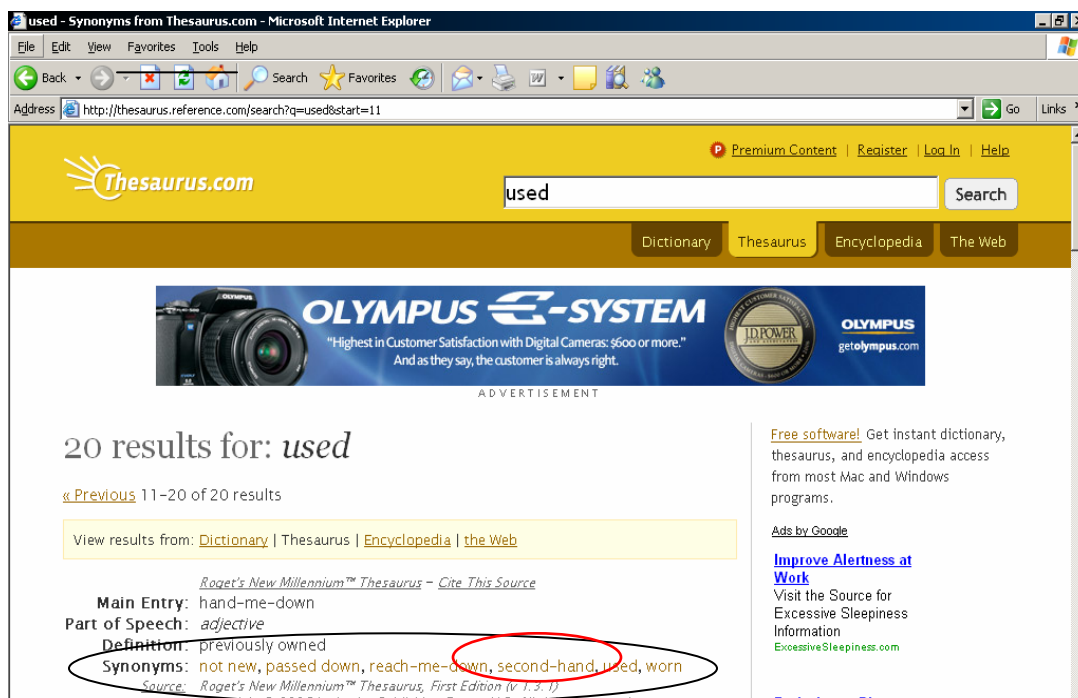
Figure 3.2 - Thesaurus.com search results for "used".

Using a thesaurus for the word "used" gives way to several different words with the same connotation. If we try the suggestion "second-hand" in our search we get the correct NAICS code.

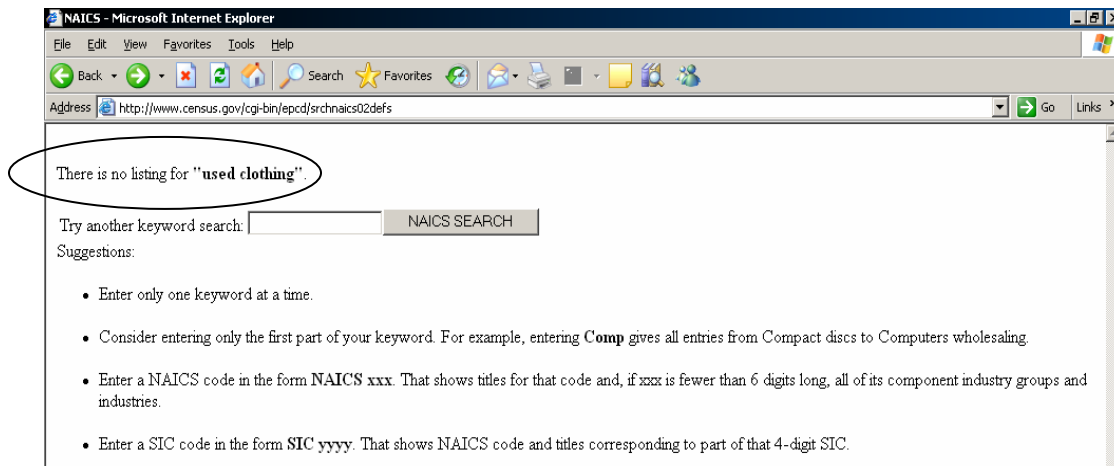**Figure 3.3 - Search results for "second-hand"**

Chapter Four - Obtaining a NAICS Code From an Application

Many times taxpayers completing the 10A100 registration application write in the NAICS code for their business. This can be found on the application in section B question 11. However, this code should be verified with the business description in question 10 parts A and B to ensure that it is accurate.

Figure 6.1 - Form 10A100

Chapter Five – Updating NAICS Codes on CRIS

Once the proper NAICS code has been found the code is input into a record in the CRIS database. There are two ways that a NAICS code will be keyed into the database, when adding a new account or updating an existing one.

5.1 - Adding a New Account
(Taxpayer Registration and Field Operations Only)

When adding a new account, go to the CRIS Master Menu as depicted below. Select the "Responsible Party" option by placing an "X" on that field and press "Enter". This will take you to the "Application Input – Responsible Party" Screen.
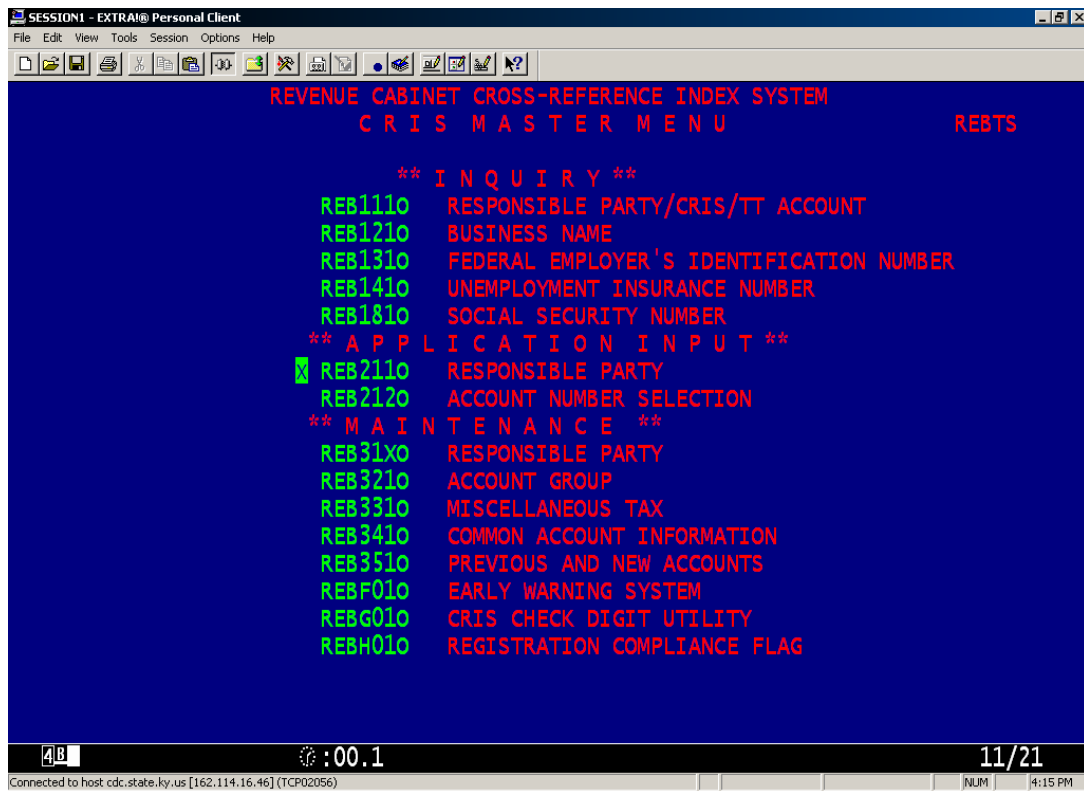
Figure 5.1 - The CRIS database Master Menu.

At the Application Input – Responsible Party screen all useful information about the responsible party is entered, including the type ownership, the party's name, address, title code, SSN and start date. After all the correct information has been entered, press "Enter".

Figure 5.2 - The Responsible Party input screen.

This brings you to the "Account Number Selection" screen. It is here that the NAICS and SIC codes are entered. Input the business name, the type of tax accounts needed, the 6-digit NAICS code, 4-digit federal and state sic code and the accounting period (Federal and state SIC codes are the same). This brings you to the type tax account input screens. Input all the needed information for each appropriate type tax, then press "Enter". The appropriate account numbers have been created and will show up as records in the CRIS database by the next business day.

```
SESSION1 - EXTRA!® Personal Client                                        [_][B][X]
File  Edit  View  Tools  Session  Options  Help

                REVENUE CABINET CROSS-REFERENCE INDEX SYSTEM        REB2120
                APPLICATION INPUT  -  ACCOUNT NO SELECTION

                                                   MAINTENANCE
     TO ADD AN ACCOUNT GROUP TO CROSS INDEX NO.
     ENTER THE FOLLOWING INFORMATION:

     # BUSINESS NAME


       INDICATE THE TYPE TAX ACCOUNTS NEEDED:    SALES & USE
                                                 WITHHOLDING
                                                 CORPORATION
                                                 COAL TAX

       FEIN

     # STATE SIC CODE           FEDERAL SIC CODE
       NAICS CODE
       U.I. NO.
     # ACCOUNTING PERIOD        (MM DD)




     4B                  :00.1                                     05/59
Connected to host cdc.state.ky.us [162.114.16.46] (TCP02056)            NUM    4:22 PM
```

Figure 5.3 – Application Input - Account Number Selection Screen.

5.2 - Adding New Account Numbers to an Existing CRIS Account (Taxpayer Registration and Field Operations only)

Adding new account numbers to an existing record in the CRIS database is a common occurrence that is very similar to adding a new CRIS account. From the "CRIS Master Menu", as illustrated in Figure 5.1, select the "Account Number Selection" option from the "Application Input" sub menu and press "Enter". This brings you to the Application Input – Account Number Selection screen (see Figure 5.3). Enter all the appropriate information as described in the section for "Adding a New Account".

5.3 - Updating a NAICS Code in an Existing Account Number

To update an existing account number in the CRIS database return to the "CRIS Master Menu" and select the "Common Account Information" option from the "Maintenance Sub menu, on the "CRIS Master Menu". This brings you to the "Common Account Information Maintenance" screen. Tab to the top field of the screen and type the CRIS number (and check digit), type tax and type tax account number (no check digit required) and press "Enter". Tab down to the SIC and NAICS code fields and replace existing codes with the new ones, then press "Enter". This is done for each account number. The updated codes for that account will show up in the CRIS system the next business day.

Figure 5.4 - Common Account Information Maintenance input screen.

Chapter Six – Glossary of Terms

Accounting Period – The 12-month period a taxpayer uses to determine their income tax, either a calendar or fiscal year.

Correspondence Table – A table that pairs each of the 20 industry sections with a unique identification number.

CRIS (Cross Reference Index System) – A database used to store registration information of businesses in Kentucky.

Database – A collection of information that is organized so that it can easily be accessed, managed, and updated.

FEIN (Federal Employer Identification Number) – A unique identification number given to a business that is registered with the IRS.

Field – A single piece of information stored in a record of a database.

Input Screen – Data entry screen in CRIS that allows user to input data into a database.

NAICS (North American Industry Classification System) Code – A system used to classify various business industries.

Responsibility Party – A responsible party is a person or organization who is wholly or in part responsible for a business.

Record – A group of related fields that store data about a subject or activity.

Search Engine – A software program that searches a database and gathers and reports information that contains or is related to specified terms.

SIC (Standard Industrial Classification) Code – The coding scheme used to classify business industries before NAICS was developed.

Start Date – Date that a person or company became responsible for a business.

Text Box – A data structure that holds alpha-numeric data, such as name and address, used to input and output text.

Title Code – Coding scheme used to identify responsibility party's business title, such as, president and vice president.

Type Ownership – The organizational structure of a business, such as; a corporation or a sole proprietor.

Type Tax – The different taxes in which a business is responsible for paying, such as; corporation income tax, withholding tax, and sales and use tax.